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THE OFFICE OF THE STATE AUDITOR

ANDREA "ANDY" BENNETT
STATE AUDITOR

THE UNIVERSITY OF MONTANA

LIMITED SCOPE AUDIT OF OPERATIONS AND CONTROLS OF THE UNIVERSITY CENTER COMMISSARY

Fiscal Year 1988

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STATE AUDITOR
STATE OF MONTANA

Andrea "Andy" Bennett
STATE AUDITOR

COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

November 23, 1988

Andrea "Andy" Bennett
State Auditor
Room 270
Mitchell Building
P.O. Box 4009
Helena, MT 59620

Dear Mrs. Bennett:

This is my report on the Limited Scope Operational Audit performed at the request of the University of Montana on the commissary and related operations at the University.

This report contains four recommendations directed at improving administrative controls and operating procedures in the University Commissary.

I would like to thank the University of Montana management and staff for their cooperation and assistance provided during the audit.

Respectfully submitted,

Joe W. Lundberg
Internal Auditor
Office of the State Auditor

JWL/vf(352)

Sam W Mitchell Building/P.O. Box 4009/Helena, Montana 59604/Telephone: (406) 444-2040/Toll Free 1-800-332-6148

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University of Montana
Controller's Office • Missoula, Montana 59812 • (406) 243-6260

June 2, 1988

Mr. Joe W. Lundberg, Auditor
Office of the State Auditor
P. O. Box 4009
Capitol Station
Helena, MT 59620

Dear Mr. Lundberg:

I would like to request some additional audit procedures while you are on campus auditing the contingent revolving funds.

The University of Montana would like to have you review the administrative controls and operations of the University Center Commissary and related functions. The University requests that your findings be presented in a separate report.

Please advise me if your office will have any problems with this request. If you agree to perform this review, please sign in the space provided and return the original to me.

Sincerely,

K. M. Cotton
Controller

KMC/gw

Agree: Joe Lundberg
Office of the State Auditor
Date: June 4, 1988

Equal Opportunity in Education and Employment

STATE AUDITOR
STATE OF MONTANA

Andrea "Andy" Bennett
STATE AUDITOR

COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

November 23, 1988

Mrs. Sylvia Weisenberger
Acting Vice President
for Fiscal Affairs
Main Hall
University of Montana
Missoula, MT 59812

Dear Sylvia:

During our examination of the contingent revolving funds at the University of Montana, the university requested we perform some additional audit procedures on the operations in the University Commissary and related operations.

Because the requested audit procedures were outside the scope of the original audit engagement, we are issuing a supplemental report on our findings in the commissary.

As with the audit of the contingent revolving funds, our examination of the commissary was made in accordance with generally accepted governmental auditing standards for operational audits and accordingly included such tests of the University Commissary records and such other auditing procedures as we considered necessary in the circumstances.

The following report contains our findings and related recommendations for improving controls and operations in the University Center Commissary and Food Services.

Respectfully submitted,

Joe W. Lundberg
Auditor
Office of the State Auditor

JL/vf(340)

Sam W. Mitchell Building/P O. Box 4009/Helena, Montana 59604/ Telephone: (406) 444-2040/Toll Free 1-800-332-6148

SUMMARY OF AUDIT RECOMMENDATIONS

RECOMMENDATION #1:

WE RECOMMEND THE UNIVERSITY COMMISSARY REVISE ITS PROCEDURES FOR WITHDRAWAL OF ITEMS IN THE WAREHOUSE. WE SUGGEST THE UNIVERSITY CONSIDER USING A LOG TO TRACK THE ISSUANCE OF WAREHOUSE WITHDRAWAL FORMS THAT WOULD INCLUDE THE FOLLOWING:

University of Montana Response: Concur. **See page 9**

RECOMMENDATION #2:

WE RECOMMEND THE UNIVERSITY EVALUATE THE CURRENT STAFFING PATTERN IN THE UNIVERSITY CENTER COMMISSARY, FOOD SERVICE AND ADMINISTRATIVE OFFICE WITH THE INTENT OF REALIGNMENT OF THE DUTIES OF EXISTING PERSONNEL TO ALLOW THE SEPARATION OF INCOMPATIBLE FUNCTIONS. SUCH SEPARATION WILL STRENGTHEN INTERNAL CONTROLS AND IMPROVE EFFICIENCY OF OPERATIONS.

University of Montana Response: Concur. **See page 9**

RECOMMENDATION #3:

WE RECOMMEND THE UNIVERSITY EVALUATE CURRENT STORAGE SPACE UTILIZATION IN AN EFFORT TO MAKE MORE EFFICIENT USE OF EXISTING STORAGE SPACE. SUFFICIENT STORAGE SPACE SHOULD BE MADE AVAILABLE TO ENABLE THE UNIVERSITY TO ORDER THROUGH TERM PURCHASE ORDERS. THIS PROCESS WILL ALLOW THE UNIVERSITY TO REDUCE THE NUMBER OF TRANSACTIONS REQUIRED TO OPERATE THE

COMMISSARY AND RELATED FOOD SERVICE FUNCTIONS. THIS WILL SAVE THE UNIVERSITY TIME AND MONEY BY HAVING TO PROCESS FEWER TRANSACTIONS AND RECEIVING BETTER PRICES BECAUSE OF DISCOUNTS FOR QUANTITY PURCHASES.

University of Montana Response: Concur. **See page 9**

RECOMMENDATION #4:

WE RECOMMEND THE UNIVERSITY COMMISSARY EVALUATE THEIR CURRENT ORDERING AND WAREHOUSING PRACTICES AND DEVELOP WRITTEN PROCEDURES FOR ORDERING FOOD ITEMS THAT ELIMINATE UNNECESSARY ORDERING. WE FURTHER RECOMMEND THAT UNIVERSITY PURCHASING AND INTERNAL AUDIT BE INVOLVED IN THIS PROCESS.

University of Montana Response: Concur. **See page 10**

JL/blm(377)

INTRODUCTION:

At the request of the University of Montana, the State Auditor's Office performed audit procedures on the operations of the University Commissary and related operations. The objectives of the audit were:

1. to review and evaluate administrative controls;
2. to determine the effectiveness of operations;
3. to make recommendations for improvement of operations and controls.

SCOPE:

Our audit was conducted in accordance with generally accepted governmental auditing standards for operational audits and accordingly included such tests of the University Commissary records and such other auditing procedures as we considered necessary in the circumstances. This audit did not included an examination of university financial schedules and we therefore express no opinion thereon.

This report is intended solely for the use of the management staff of the University of Montana and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, when accepted by the University of Montana, is a matter of public record.

UNIVERSITY COMMISSARY:

Withdrawals from commissary are made on pre-numbered forms. The forms are issued to various departments. When the forms are issued, the commissary records the numbers or the

withdrawal forms in a "logbook." Problems with this process were noted in the audit.

During the audit, we asked to review the "logbook" but the office staff was unable to find it. When the book was found, it consisted of a single page with a heading indicating it contained information for FY 1982 - 1983. We determined through an examination of outstanding withdrawal forms that forms for the fiscal years beginning with 1982 through fiscal year 1988, the period under audit, were listed in the log.

The "logbook" contains the number of pre-numbered withdrawal forms issued to five campus locations. There is no separation or indication of issuances by fiscal year, the one page log contained information for what appears to be five fiscal years. There is no indication that the departments actually received the forms as noted in the log. It is difficult to hold a person or department accountable for something issued to them if there is no evidence the intended receiving party actually received it.

The "logbook" has no space to indicate issued forms that have been used or voided, nor a space to record the dollar amount of the transactions itemized on the forms. Deficiencies as outlined above make reconciliation of inventory difficult. While we found no instances of problems in this area, this weakness allows for possible unauthorized use of commissary withdrawal forms and potential theft.

RECOMMENDATION #1:

WE RECOMMEND THE UNIVERSITY COMMISSARY REVISE ITS PROCEDURES FOR WITHDRAWAL OF ITEMS IN THE WAREHOUSE. WE SUGGEST THE UNIVERSITY CONSIDER USING A LOG TO TRACK THE ISSUANCE OF WAREHOUSE WITHDRAWAL FORMS THAT WOULD INCLUDE THE FOLLOWING:

1. The numbers of the forms issued to a responsibility center;
2. A space for the receiving responsibility center to acknowledge receipt of the forms;
3. The log should reflect the returned forms and the total amounts of items withdrawn;
4. The entries in the log should clearly reflect the fiscal year issued and returned;
5. The date of issuance of forms to the center should be in the log; and
6. If a form is spoiled, the word "void" should be written across the form with the person's initials voiding the form and the date should appear on the form. This information should also be entered in the logbook.

COMPLETION OF WITHDRAWAL FORMS

We examined a sample of used withdrawal forms and found that receiving departments were accepting items from the warehouse on the withdrawal forms without having the unit prices written on the forms. We were told that pricing was

completed later by personnel in the commissary. This practice places the receiving department in a situation of possibly being charged incorrectly for items ordered and received.

A better procedure would be for the commissary to provide each department that purchases items from the commissary current price lists. Each time a department receive shipments from the commissary the person receiving the order can verify the items received and check the prices and extensions for correctness and mathematical accuracy.

SEPARATION OF DUTIES

The audit work revealed a serious lack of the separation of duties in the commissary. The commissary manager performs the following duties, when taken as a whole are incompatible and represent very weak controls.

1. Orders items from vendors;
2. Acknowledges receipt of orders;
3. Signs checks or authorizes payments; and
4. Authorizes or physically dispenses withdrawals from warehouse inventory.

The functions mentioned above, when performed by one individual allow for such possible improper authorization or payment of inappropriate invoices, unauthorized withdrawals from the commissary, acknowledgement of orders received from vendors at levels less than the amounts actually received and subsequent theft of merchandise. It should be understood that we found no evidence of any unauthorized activity as previously described.

There are currently 2.5 FTE authorized for the commissary. Because of the small number of employers allocated to this department, proper separation is not possible. The lack of segregation of duties in this area is a major internal control weakness.

RECOMMENDATION #2:

WE RECOMMEND THE UNIVERSITY EVALUATE THE CURRENT STAFFING PATTERN IN THE UNIVERSITY CENTER COMMISSARY, FOOD SERVICE AND ADMINISTRATIVE OFFICE WITH THE INTENT OF REALIGNMENT OF THE DUTIES OF EXISTING PERSONNEL TO ALLOW THE SEPARATION OF INCOMPATIBLE FUNCTIONS. SUCH SEPARATION WILL STRENGTHEN INTERNAL CONTROLS AND IMPROVE EFFICIENCY OF OPERATIONS.

USE OF STORAGE SPACE BY THE COMMISSARY

The university center has been undergoing some remodeling of space to accommodate a mini mall on the lower level of the building. Some of the space to be occupied by the mini mall had been used by the commissary for storage of food items purchased for future use.

One of the food service managers indicated that storage space was limited and thus required the frequent ordering of small quantities of staple items such as corn starch, tomato paste, plastic cups and other non-perishable products.

RECOMMENDATION #3:

WE RECOMMEND THE UNIVERSITY EVALUATE CURRENT STORAGE SPACE UTILIZATION IN AN EFFORT TO MAKE MORE EFFICIENT USE OF EXISTING STORAGE SPACE. SUFFICIENT STORAGE SPACE SHOULD BE MADE AVAILABLE TO ENABLE THE UNIVERSITY TO ORDER THROUGH TERM PURCHASE ORDERS. THIS PROCESS WILL ALLOW THE UNIVERSITY TO REDUCE THE NUMBER OF TRANSACTIONS REQUIRED TO OPERATE THE COMMISSARY AND RELATED FOOD SERVICE FUNCTIONS. THIS WILL SAVE THE UNIVERSITY TIME AND MONEY BY HAVING TO PROCESS FEWER TRANSACTIONS AND RECEIVING BETTER PRICES BECAUSE OF DISCOUNTS FOR QUANTITY PURCHASES.

The university commissary does not have a system in place for ordering or re-ordering supplies. The manager told us he visually reviews the items in the warehouse and orders what appears to be necessary.

When we reviewed items purchased, the records showed that responsibility center 1842 ordered tomato paste on October 5 and again on October 8. This order created separate financial transactions. Tomato paste has a reasonably long shelf-life. If proper ordering and warehousing policies for staple food items were in place, frequent transactions such as just described would not be necessary.

In order to maintain an effective and efficient ordering and warehousing function, proper planning is required. The

person responsible for ordering should coordinate with the kitchen supervisors' needs according to the menus planned, to reduce the number of "emergency" situations created.

RECOMMENDATION #4:

WE RECOMMEND THE UNIVERSITY COMMISSARY EVALUATE THEIR CURRENT ORDERING AND WAREHOUSING PRACTICES AND DEVELOP WRITTEN PROCEDURES FOR ORDERING FOOD ITEMS THAT ELIMINATE UNNECESSARY ORDERING. WE FURTHER RECOMMEND THAT UNIVERSITY PURCHASING AND INTERNAL AUDIT BE INVOLVED IN THIS PROCESS.

CONCLUDING COMMENTS:

We believe that the four recommendations contained in this report, when implemented, will improve the administrative controls and the efficiency of commissary operations.

Our audit of the contingent revolving funds was performed concurrently; with the audit of the commissary. During both audits several situations came to our attention involving the operation of the University Center in general that need to be reviewed. We would suggest that internal control, the controller's office, and auxiliary services cooperatively approach this review.

University of Montana
Budget Office • Missoula, Montana 59812 • (406) 243-5661

November 14, 1988

Andrea "Andy" Bennett
State Auditor
Room 270 Mitchell Building
P.O. Box 4009
Helena, Montana 59604

RE: Audit Responses

Enclosed please find the University of Montana's responses to the Limited Scope Audit of Operations and Controls of the University Center Commissary and the Limited Scope Operational Audit - Contingent Revolving Funds for Fiscal Year 1987-1988.

Please contact me if you have any questions regarding these responses.

Sincerely,

Sylvia Weisenburger
Vice President for
Administration and Finance (Acting)

SW/sb

cc: Mr. Jack Noble, Deputy Commissioner for Management and Fiscal Affairs

Equal Opportunity in Education and Employment

RECOMMENDATION #1

WE RECOMMEND THE UNIVERSITY COMMISSARY REVISE ITS PROCEDURES FOR WITHDRAWAL OF ITEMS IN THE WAREHOUSE. WE SUGGEST THE UNIVERSITY CONSIDER USING A LOG TO TRACK THE ISSUANCE OF WAREHOUSE WITHDRAWAL FORMS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THIS RECOMMENDATION. The University is in the process of revising procedures for the withdrawal and charging of items to users which will provide for the appropriate segregation of duties and satisfy the other concerns addressed in this recommendation.

RECOMMENDATION #2

WE RECOMMEND THE UNIVERSITY EVALUATE THE CURRENT STAFFING PATTERN IN THE UNIVERSITY CENTER COMMISSARY, FOOD SERVICE AND ADMINISTRATIVE OFFICE WITH THE INTENT OF REALIGNMENT OF THE DUTIES OF EXISTING PERSONNEL TO ALLOW THE SEPARATION OF INCOMPATIBLE FUNCTIONS. SUCH SEPARATION WILL STRENGTHEN INTERNAL CONTROLS AND IMPROVE EFFICIENCY OF OPERATIONS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THIS RECOMMENDATION. The University is currently revising the policies and procedures used in the University Center Commissary. The new procedures provide for a realignment of duties that will enhance internal control and the efficiency of the operation. At this time the University is not considering hiring new staff.

RECOMMENDATION #3

WE RECOMMEND THE UNIVERSITY EVALUATE CURRENT STORAGE SPACE UTILIZATION IN AN EFFORT TO MAKE MORE EFFICIENT USE OF EXISTING STORAGE SPACE. SUFFICIENT STORAGE SPACE SHOULD BE MADE AVAILABLE TO ENABLE THE UNIVERSITY TO ORDER THROUGH TERM PURCHASE ORDERS. THIS PROCESS WILL ALLOW THE UNIVERSITY TO REDUCE THE NUMBER OF TRANSACTIONS REQUIRED TO OPERATE THE COMMISSARY AND RELATED FOOD SERVICE FUNCTIONS. THIS WILL SAVE THE UNIVERSITY TIME AND MONEY BY HAVING TO PROCESS FEWER TRANSACTIONS AND RECEIVING BETTER PRICES BECAUSE OF DISCOUNTS FOR QUANTITY PURCHASES.

RESPONSE:

THE UNIVERSITY CONCURS WITH THIS RECOMMENDATION. The University is revising the purchasing procedures to substantially reduce the need for inventory and thereby reduce the need for space. These revised procedures should reduce the need for food storage by approximately seventy-five percent. The University feels that ordering and receiving product on demand as provided for in term purchase orders is preferable to making large quantity purchases.

RECOMMENDATION # 4

WE RECOMMEND THE UNIVERSITY COMMISSARY EVALUATE THEIR CURRENT ORDERING AND WAREHOUSING PRACTICES AND DEVELOP WRITTEN PROCEDURES FOR ORDERING FOOD ITEMS THAT ELIMINATE UNNECESSARY ORDERING. WE FURTHER RECOMMEND THAT UNIVERSITY PURCHASING AND INTERNAL AUDIT BE INVOLVED IN THIS PROCESS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THIS RECOMMENDATION. The University is in the process of revising existing policies and procedures and developing new ones which will address these concerns. The new procedures will be in compliance with all purchasing regulations and enhance the commissary's internal control.